

## Message Text

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SUBJ: MAJOR PROJECTS MENTIONED IN PRESIDENT'S NEW YEAR'S MESSAGE

REF: CARACAS 040

1. PRESIDENT CARLOS ANDRES PEREZ DELIVERED HIS TRADITIONAL NEW YEAR ADDRESS TO THE NATION DURING THE EVENING OF JANUARY 1. A GOOD DEAL OF THE SPEECH DEALT WITH THE ECONOMIC PROGRESS MADE BY HIS ADMINISTRATION, ESPECIALLY THAT CORRESPONDING TO 1977 AND THAT PLANNED FOR 1978. HE EMPHASIZED THE PROGRESS MADE ON A NUMBER OF MAJOR PROJECTS AND EXPRESSED THE DETERMINATION TO EXPEDITE THEIR COMPLETION NOTWITHSTANDING POSSIBLE BALANCE OF PAYMENTS PROBLEMS AND A MOUNTING DEBT LOAD. HE MADE THE FOLLOWING COMMENTS RE SPECIFIC PROJECTS.

A. LOS PIJOGUAOS BAUXITE DEPOSIT: WITHIN 30MONTHS "ONE WILL BE ABLE TO COUNT ON" THE NECESSARY INSTALLATIONS TO TRANSPORT THE ORE FROM LOS PIJIGUAOS TO CIUDAD GUAYANA.

B. GRAY IRON FOUNDRY: CONSTRUCTION OF THIS \$93 MILLION PROJECT WILL BEGIN IN 1978. THE FOUNDRY, WHICH WILL FORM PART OF THE BOLIVAR STATE METALWORKING COMPLEX, WILL PRODUCE PIECES AND PARTS FOR TRACTORS

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CONSTRUCTION EQUIPMENT, AND ENGINE BLOCKS AND CYLINDER HEADS FOR DIESEL MOTORS WHICH WILL ALSO BE PRODUCED AT THAT COMPLEX.(SEPTTEL FOLLOWS).

C. ELECTRODE PLANT: CONSTRUCTION OF THIS \$186MILLION PLANT IS TO BEGIN IN 1978. THE PLANT WILL PRODUCE 50,000MT/YEAR OF CARBON ELECTRODES; PART TO BE CONSUMED BY SIDOR'S NEW ELECTRIC STEEL FUR-

NACES AND PART BY ANDEAN PACT COUNTRIES. THIS PLANT IS EXPECTED TO START UP IN MID-1980. (SEE CARACAS 7979).

D. FANATRACTO (THE DIESEL MOTOR AND TRACTOR PLANT NOW UNDER CONSTRUCTION IN CIUDAD BOLIVAR THAT WILL PRODUCE JOHN DEERE AGRICULTURAL TRACTORS AND BACKHOES): OTHER INSTALLATIONS FOR THE PRODUCTION OF JOHN DEERE AND FIAT DIESEL MOTORS WILL BE ADDED TO THE FANATRACTO PLANT IN 1978. UPON COMPLETION OF THOSE INSTALLATIONS ALL NATIONAL DEMAND FOR DIESEL MOTORS AS WELL AS PART OF THE ANDEAN PACT DEMAND FOR SUCH MOTORS WILL BE COVERED. THESE DIESEL PLANTS WILL FORM PART OF THE AUTOMOTIVE INTEGRATION PLANT APPROVED IN LIMA.

E. HEAVY DIESEL TRUCK PLANT: PAGASO (SPAIN) HAS BEGUN CONSTRUCTION OF ITS HEAVY DIESEL TRUCK PLANT IN CUMANA. THE FIRST VEHICLE IS EXPECTED TO ROLL OFF THE ASSEMBLY LINE IN NOVEMBER 1978.

F. ZULIA COAL PROJECT: THE FEASIBILITY STUDY FOR THIS PROJECT WAS COMPLETED IN 1977. IT SHOWED THAT THERE ARE 161 MILLION MT OF PROVEN RESERVES, 275MILLION MT OF "INDICATED" RESERVES, AND 1,069MILLION MT OF "INFERRED"RESERVES. THE ZULIA COAL PROJECT WILL COMMENCE IN 1978, WITH THE FORMATION OF A STATE ENTERPRISE. FIRST PRODUCTION FROM THE MINES IS EXPECTED IN 1982 AT AN ANNUAL RATE OF 400,000 MT. PRODUCTION IS EXPECTED TO INCREASE TO AN ANNUAL RATE OF 4,000,000 MT BY 1988. (SEE CARACAS A-156)

G. ZULIA STEEL STEEL PROJECT: BECAUSE OF THE VERY HEAVY FINANCIAL UNCLASSIFIED

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INVOLVEMENT OF THE GOV IN A NUMBER OF PROJECTS IN THE GUAYANA REGION, A MIXED ENTERPRISE (51PERCENT GOV,49PERCENT PRIVATE CAPITAL) WILL BE FORMED TO DEVELOP THIS PROJECT. FORTY-SEVEN FIRMS AND CONSORTIA FROM THE U.S., EUROPE, CANADA, AND JAPAN HAVE EXPRESSED INTEREST IN THE PREQUALIFICATION PROCESS NOW UNDERWAY TO SELECT A PARTNER FOR THIS PROJECT. THE GOV WILL BE ABLE TO SELECT THE PARTNER BY THE END OF JANUARY. THE STEEL COMPLEX IS EXPECTED TO START UP IN 1982. INITIAL INSTALLED CAPACITY WILL BE NOT LESS THAN 1.1MILLIJ MT/YEAR. EVENTUAL INSTALLED CAPACITY WILL BE 5MILLION MT/YEAR OF FINISHED STEEL PRODUCTS.

H. SIDOR PLAN IV, ALCASA, AND VENALUM: ALL THESE PROJECTS ARE ON SCHEDULE ACCORDING TO THE PRESIDENT.

2. PRESIDENT PEREZ MADE POINTED REFERENCE TO THE INCREASE IN PUBLIC DEBT DURING HIS ADMINISTRATION (FROM \$1.64BILLION AT THE BEGINNING OF HIS TERM TO AN ESTIMATED \$8.03 BILLION AT THE END OF 1977). HE EXPLAINED THAT VENEZUELA ENJOYED A VERY STRONG REPUTATION IN INTERNATIONAL FINANCIAL CIRCLES AND THAT THE PRESENT LEVEL OF PUBLIC DEBT WAS NO CAUSE FOR ALARM. HE STRESSED THAT HIS ADMINISTRATION WAS COMMITTED TO A POLICY OF STIMULATING THE NATION'S SOCIAL AND ECONOMIC DEVELOPMENT AND THAT SUCH A POLICY IMPLIED INCREASED DEBT. HE MADE IT

CLEAR THAT HIS GOVERNMENT WOULD NOT HESITATE TO INCUR MORE DEBT IN ORDER TO MAINTAIN THE NACION'S ECONOMIC MOMENTUM. LIKEWISE , HE ADMITTED THE POSSIBILITY OF A SMALL CURRENT ACCOUNT DEFICIT, WHICH HOWEVER, HE VIEWED WITH EQUANIMITY AS REFLECTING VENEZUELA'S HEAVY IMPORTS OF CAPITAL GOODS FOR DEVELOPMENT PROJECTS DURING 1977.

3. COMMENT: PRESIDENT PEREZ EMPHASIZED THE NEED AND DESIRABILITY OF CONTINUING THE GOV'S EXTENSIVE AND WIDE-RANGE STIMULUS OF THE VENEZUELAN ECONOMY. HE DESCRIBED THE ALUMINUM, AUTOMOTIVE, AND IRON AND STEEL INDUSTRIES AS EXEMPLARY OF THOSE IN WHICH GOVERNMENT STIMULATION HAS RESULTED IN A CHANGE FROM VENEZUELA'S TRADITIONAL LDC ROLE AS EXPORTER OF RAW MATERIALS (AND IMPORTER OF FINISHED GOODS) TO THAT OF AN EXPORTER OR SELF-SUPPLIER OF HIGH VALUE-ADDED FINISHED OR SIMI-FINISHED PRODUCTS. THAT TREND, OVER THE LONG RUN, UNCLASSIFIED

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CAN BE EXPECTED TO DIMINISH U.S. EXPORT OPPORTUNITIES TO THE EXTENT THAT LOCAL MANUFACTURERS CAN SUPPLY ITEMS CURRENTLY IMPORTED. DURING THE SHORT AND MEDIUM TERN, HOWEVER, VENEZUELA'S EFFORTS TO DEVELOP A SOPHISTICATED MANUFACTURING ECONOMY BASED TO A LARGE DEGREE ON THE USE OF THE COUNTRY'S NATURAL RESOURCES WILL GIVE RISE TO A SERIES OF MAJOR PROJECTS WHICH WILL CONTINUE TO PROVIDE SIGNIFICANT BUSINESS OPPORTUNITIES FOR U.S. SUPPLIERS OF CONSULTING AND ENGINEERING SERVICES AND CAPITAL GOODS.

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